Overview

Recent history suggests that the conference agreement on this year's Republican budget resolution is essentially a meaningless political document, not a credible or serious budget plan. Last year, for instance, the Republican budget plan called for large and rapidly growing tax cuts and for very deep cuts in appropriated programs. Neither were enacted; in fact, the Republicans increased funding for appropriated programs. This year looks to be more of the same. This year's Republican budget plan calls for even bigger tax cuts, and for deep cuts in non-defense appropriations. It is therefore unlikely that the President and Congress will enact legislation implementing this year's plan: tax cuts are likely to be more modest in size and scope, and non-defense programs are likely to be increased, not cut. Though not a guide to the future, this year's congressional budget *is* a guide to Republican policy priorities. That is why this report analyzes the policies in this year's congressional budget. In brief, over the five-year period 2001-2005, this year's Republican budget plan —

- cuts taxes by $175 billion, and reserves any improvement in the budget forecast exclusively for even greater tax cuts;

- increases Medicare by $40 billion, some of which may be for prescription drugs;

- makes the prescription drug benefit contingent on unspecified Medicare "reform" and probably limits it to fewer than half of Medicare beneficiaries;

- increases defense outlays by $12 billion beyond that needed to cover inflation;

- increases farm benefit payments by $9 billion relative to existing law; and

- cuts non-defense appropriations by $121 billion in budget authority and $102 billion in outlays relative to the amounts need to stay even with inflation — these budget authority cuts reach an average of 10 percent by 2005.

The tax cuts and the selected program increases far exceed the $171 billion, five-year, non-Social Security surplus the Congressional Budget Office (CBO) projected in March. The tax cuts alone use up 100 percent of the projected surplus. Republicans meet their promise not to "raid" Social Security — their term — by calling for significant cuts in non-defense appropriations. Yet in each of the last four years, Congress has increased those programs faster than inflation. If the program cuts don't occur, the on-budget portion of the federal budget will be thrown back into deficit, unless future reestimates show an even larger starting surplus and the Republicans do not use that windfall for bigger tax cuts. And whether there is an on-budget deficit or surplus, the Republican plan does not extend the solvency of the Social Security or Medicare Trust Funds at all.

Budget Totals

Congressional budgets are simply elaborate tables of figures. The totals, covering 2000 through 2005, are shown in Table 1, below. The Republican budget cuts taxes by $175 billion over the five-year period 2001-2005. That amount is divided between $150 billion set forth in the budget plan and an additional $25 billion "in reserve." The extra $25 billion becomes available if the Ways and Means Committee and the Budget Committee Chairman choose — its use is not contingent on improvements in the economy, for example — so all figures in this analysis assume that the $25 billion "reserve" is used and the tax cut consequently totals $175 billion.[1]

Table 1: Totals in the Congressional Budget for 2001

dollars in billions

	2000	2001	2002	2003	2004	2005	5-yr Total
Outlays	1,783.8	1,834.7	1,889.6	1,947.9	2,011.1	2,086.0	9,769.2
Revenues	1,945.1	2,003.7	2,068.9	2,140.4	2,217.1	2,308.1	10,738.2
Surplus	161.3	169.0	179.3	192.5	206.0	222.1	969.0
On-budget surplus	12.4	7.9	1.5	1.3	1.0	0.4	12.2
Off-budget surplus	148.9	161.1	177.8	191.2	205.0	221.7	956.8
Debt held by public	3,470.2	3,314.2	3,140.3	2,959.4	2,764.4	2,551.9	n.a.

The congressional budget must exclude the Social Security Trust Fund and the Postal Service Fund because these agencies are designated by statute as "off budget." However, the conferees provided figures for both on-budget and off-budget agencies, and this analysis discusses both. (Virtually all of the off-budget surplus is attributable to Social Security, whose payroll taxes and interest earnings currently exceed the cost of benefits and administration.)

Debt Reduction and the On-Budget Surplus

In March, CBO projected that current budget policies would produce an on-budget surplus (a surplus excluding Social Security) of $171 billion over the five-year period 2001-2005. Of that $171 billion surplus, the conference agreement devotes $12 billion, or 8 percent, to debt reduction. (The House Democratic alternative budget resolution, in contrast, devoted four times as much of the on-budget surplus to debt reduction.) Table 2 shows how the Republican budget disposes of the projected $171 billion on-budget surplus.

[1] The year-by-year path of the $25 billion tax cut "reserve" — $1.0 billion, $4.0 billion, $5.4 billion, $5.6 billion, and $9.0 billion in 2001 through 2005, respectively, was supplied by Republican staff. All figures in this analysis also reflect the cost of debt service on the extra $25 billion in tax cuts. In addition, as discussed on page 6, the tax cuts can grow beyond $175 billion to the extent CBO projects an even greater baseline surplus in its August update.

Table 2: How the Conference Agreement Disposes of the On-budget Surplus

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	2001	2002	2003	2004	2005	Five years
CBO Surplus without Social Security	15	29	36	42	48	171
Tax cuts	13	27	36	45	53	175
Medicare reform & drugs	2	5	8	11	14	40
Non-defense cuts	-12	-13	-19	-26	-32	-102
Defense increases	2	3	2	3	2	12
Farm payments	2	1	2	2	2	9
Other mandatory policies	a	2	1	a	a	4
Interest costs of policies	1	2	4	6	8	21
Planned Surplus without Social Security	8	2	1	1	a	12

May not add due to rounding.
a = less than $½ billion

Table 2 shows that the $175 billion tax cut *by itself* uses up all of the projected on-budget surplus. In addition, the conference agreement includes $65 billion in selected spending increases, primarily for Medicare, defense, and farm benefits. These tax and spending policies taken in isolation would produce on-budget deficits in every year; Table 3 shows these deficits would total $101 billion over five years.

Some claim that on-budget deficits harm, or even "raid," the Social Security trust fund. In any case, because on-budget deficits will not reduce debt as fast as surpluses would, deficits put the government in a worse position to meet the budgetary pressures that will occur when the baby boom generation starts to retire at the end of the decade. (For a more complete discussion of this issue, see *Debt Reduction* and *Medicare and Social Security Solvency*.) Both the Democratic and Republican parties aim to produce on-budget surpluses. The Republican budget plan achieves those on-budget surpluses by hefty cuts in non-defense appropriations — $102 billion in outlays over five years.

Table 3: The Conference Agreement WITHOUT Cuts in Non-defense Appropriations

Figures exclude Social Security; revenue or outlay changes in billions of dollars

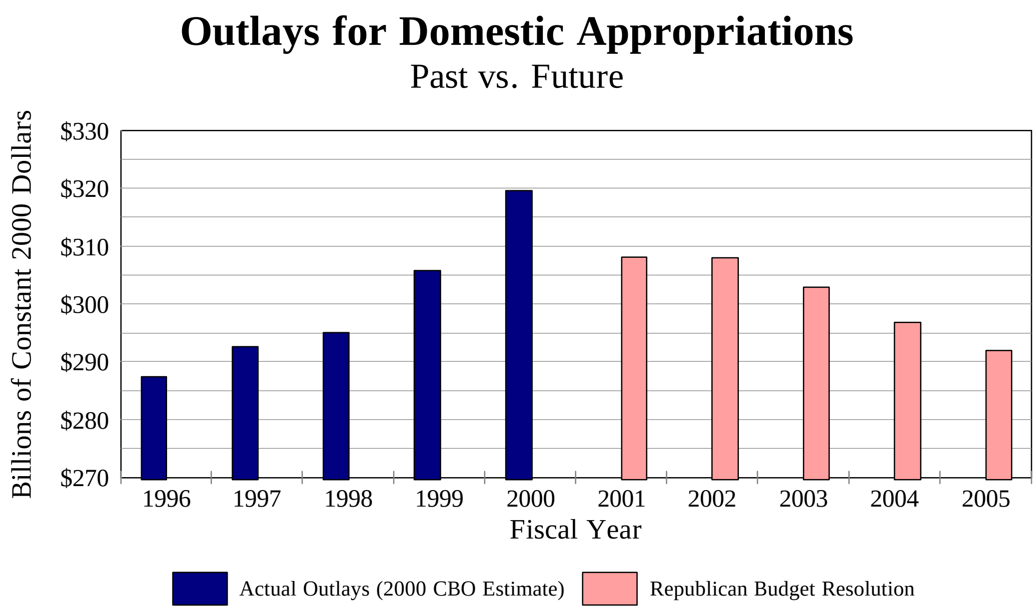
	2001	2002	2003	2004	2005	Five years
CBO Surplus without Social Security	15	29	36	42	48	171
Tax cuts	13	27	36	45	53	175
Medicare reform & drugs	2	5	8	11	14	40
Non-defense cuts	*a*	*a*	*a*	*a*	*a*	*a*
Defense increases	2	3	2	3	2	12
Farm payments	2	1	2	2	2	9
Other mandatory policies	b	2	1	b	b	4
Interest costs of policies	1	3	6	9	13	32
Resulting Deficit (-) w/o Social Security	-5	-12	-19	-28	-37	-101

May not add due to rounding.
a = omitted to illustrate what happens if non-defense appropriations are not cut.
b = less than $½ billion

Will the Non-Defense Cuts Occur?

The surpluses in the conference agreement exist only because the Republicans say they will make large non-defense cuts. Will these cuts really occur? As discussed in *Appropriations* and in the analyses of individual functions, the cuts are harmful to a variety of widely supported programs ranging from WIC, Head Start, and Pell Grants to Community Development Block Grants (CDBGs), Superfund, and the FBI.

The cuts in appropriated programs reach 10 percent on average by 2005. As noted, this analysis measures cuts relative to CBO's baseline, which assumes constant purchasing power. It is instructive that, over the past four years, Congress has increased rather than cut the purchasing power of non-defense appropriations. The following graph illustrates the sudden change in policy the Republican conference agreement calls for. Of course, it is doubtful such a sudden and complete reversal of form will, or should, take place.



Tax Cuts

The conference agreement cuts taxes at least $175 billion over five years, but it does not spell out the specific tax cuts the Republicans have in mind.

- ***Two Bills* —** There will be two tax cut bills moving in the House and Senate pursuant to a "reconciliation" directive. There is speculation that the first bill will be designed to elicit a veto and the second, a signature. The Senate is not allowed to filibuster reconciliation bills or to attach non-germane amendments.

- ***How Big?* —** The $175 billion five-year tax cut grows rapidly, reaching $53 billion by 2005. Note that the $175 billion five-year tax cut in this year's budget is 12 percent larger than the $156 billion tax cut Congress passed (but the President vetoed) last year.

- ***Long-term Costs* —** The conference report attempts to cloak the long-term costs of the tax cuts. While last year's congressional budget covered ten years and showed both the five-year and ten-year costs of the tax cut, this year's covers only five. It may be instructive to examine last year's Republican tax cut — that tax cut started at $156 billion over five years but grew to $792 billion over ten. And even that figure understated the true cost of last-year's tax cut, because most of its provisions expired in the ninth year.

Had they not done so, the ten-year cost of last-year's tax bill may well have been $869 billion, and the cost in the tenth year alone would have reached $202 billion. Since the five-year cost of this year's plan is 12 percent larger than the five-year cost of last year's plan, one can only speculate how large the ten-year cost of this year's tax cut will grow.

- ***CBO Reestimates*** **—** The tax cut can grow beyond $175 billion to the extent CBO's next budget forecast shows higher on-budget surpluses.[2] This feature of the conference agreement is available *only* for tax cuts. (See text box.) It adds to the uncertainty over the potential long-term size of the tax cut.

Tax Cuts: The Alpha and Omega

Traditionally, budget plans are based on CBO's March budget projections and do not change even if CBO alters its forecast — if CBO's August update showed an improved outlook, all the improvement automatically accrued to deficit reduction or, more recently, debt reduction.

This year, in contrast, the conference agreement permits the Budget Committee Chairmen to devote all the improvement to deeper tax cuts. If they do so, none of the improvement would be dedicated to further debt reduction. And in any case, none of the improvement can be dedicated to relieving the squeeze on domestic appropriations, to more rapidly modernizing the military, to designing a less restrictive Medicare drug benefit, and so on. In short, the Republicans are saying that their conference agreement constitutes the optimal amount of funding for education, prescription drugs, highways and mass transit, health research, low-income programs, veterans programs, farm programs and other programs *regardless* of the size of the surplus. In addition, the Republicans are saying that their tax cut of $175 billion over five years is smaller than they really want, and that a greater tax cut is therefore the primary, or perhaps only, legitimate use of a bigger surplus.

Will CBO Increase its Baseline Surplus Estimate?

Through the first six months of this year, economic growth and revenue growth have outpaced expectations, but so has the growth of outlays in federal programs, especially Medicare and Medicaid. While it is not certain that CBO will increase its estimate of the 2000 surplus or of surpluses after 2000, the conventional wisdom is that CBO will re-estimate its baseline surplus for 2000 and for future years upward in August, perhaps by substantial amounts. As explained in the previous section, the full upward re-estimate in 2001-2005 can be devoted to increasing the size of the tax cut beyond $175 billion, if the Budget Committee Chairmen choose. And if only a portion of the good news is devoted to extra tax cuts, the rest automatically is used for debt reduction.

[2] The conference agreement fails to specify which of CBO's three baselines should be used to determine whether the surplus has increased. It is likely each will increase by a different amount.

Yet the previous discussion of the conference agreement's appropriation levels strongly suggested that the proposed non-defense cuts will not be made. This leaves open a possibility not contemplated by the budget resolution — a combination of upward reestimates and smaller-than-anticipated tax cuts will provide room to increase, rather than cut, non-defense appropriations and other programs beyond the levels set in the conference agreement, all without producing an on-budget deficit.

In short, history tells us that not only are the policies in the conference agreement unlikely to be enacted, but also that the surplus estimates in this analysis — whether in Table 2 or Table 3 — are likely to prove pessimistic.

Prescription Drugs and Medicare "Reform"

The conference agreement provides $40 billion, split in any manner between prescription drugs and Medicare "reform"— the same as the House plan. Language applicable only to the Senate reserves $20 billion for prescription drugs.

- ***Drug Benefit —*** Unlike the Medicare drug benefit in the Democratic alternative, the Republican plan recently released by their Leadership does not cover all seniors under Medicare. Instead of a universal Medicare benefit, the Republicans provide low-income seniors with a voucher to purchase private drug coverage. About half of all Medicare beneficiaries would not qualify for the voucher.

- ***Medicare "Reform"—*** As in the House plan, prescription drugs can only be provided in a bill that makes unspecified "reforms" to Medicare. The undefined Medicare reform package may consist of increased provider payments or a major overhaul of the Medicare program. In the past, a key feature of Republican proposals to overhaul Medicare has been ending the universal entitlement to health care for people age 65 and older. In lieu of Medicare, seniors would receive a voucher covering a portion of a person's private insurance premiums.

- ***No <u>Required</u> Action —*** There is no "reconciliation directive" requiring a prescription drug bill. Thus, any prescription drug bill will be subject to filibuster and non-germane amendments in the Senate. The tax cuts, in contrast, are ***required*** to be reported by a specified date and are protected from filibusters and non-germane amendments.

- ***Democratic Budget Plan —*** The Democratic alternative provided $40 billion solely for prescription drugs, did not make the funds contingent on unspecified "reform," required committees to report the bill by June 22, and gave it "reconciliation" protection.

Social Security and Medicare Solvency

The conference agreement, like the House and Senate budget resolutions but unlike the House Democratic alternative, does not extend the solvency of the Medicare or Social Security trust funds at all. To the extent some of the $40 billion in Medicare increases is used to pay Part A providers (e.g., hospitals) at greater rates than currently projected, the solvency of the Part A trust fund might be shortened.

The Democratic alternative, in contrast, dedicated to the Social Security trust fund an annual amount equal to the reduction in the interest costs between 2000 and 2010. These additional payments to Social Security (starting in 2011) extended the solvency of the trust fund as much as 15 extra years. In addition, the Democratic plan dedicated $300 billion of the on-budget surplus between 2001 and 2010 to the Medicare Part A trust fund. These additional payments extended the solvency of that trust fund by as much as ten extra years.

Unlike the House and Senate resolutions but like the House Democratic alternative, the conference agreement covers the cost of recent changes in the Social Security earnings limit. Repealing the earnings limit for people age 65-69 increases Social Security outlays temporarily, but over time makes no difference and therefore does not affect the solvency of the Social Security trust funds.

Defense and Non-Defense Appropriated Programs

Unlike the House plan, the conference agreement creates firewalls between defense and non-defense programs, enforced by a Senate point of order that can be waived only by 60 votes and that applies to conference agreements on appropriations bills. The limits on defense and non-defense appropriations are shown in Table 4, below.

Table 4: "Firewalls" Between Defense and Non-Defense Appropriations

2001 amounts in billions of dollars

	BA	Outlays
Defense	310.8	297.7
Non-defense programs	289.5	327.4
TOTAL	600.3	625.1

- ***Defense Funding —*** 2001 budget authority is $20.9 billion above a freeze. This figure is $3.5 billion above the House resolution and $4.5 above the President's budget. Over five years, defense budget authority is $28.5 billion above current services.

- ***Non-defense Funding —*** 2001 budget authority is $6.7 billion below a freeze and $19.5 billion, or 6.3 percent, below current services. Over five years, non-defense programs are below current services by $121.5 billion in budget authority (actual funding) and $101.6 billion in outlays. By 2005, these cuts represent a 9.8 percent loss of purchasing power.

Although history suggests that Congress will not make the non-defense cuts assumed in the Republican budget, it is important to understand what the assumed cuts would do. Following are some examples. The programmatic impact of the cuts is discussed at greater length in *Appropriations* and throughout the analyses of the budget functions.

It is also worth noting that the conference agreement includes $5.5 billion in unspecified cuts for 2001 in the "Allowances" function (Function 920) which, by necessity, must come from actual non-defense programs. Consequently, adherence to the limits on non-defense programs means that Congress must cut appropriated programs *below* the levels specified in an individual function; the cuts may be deeper than specified below and the (few) increases may be smaller or non-existent.

- ***Education —*** The conference agreement provides $56.8 billion for 2001 appropriations for education, training, employment, and social services, almost $5 billion less than the level in the House Democratic budget and the President's budget. The 2001 outlay level in the conference agreement is $600 million below the level needed to maintain constant purchasing power. The conference agreement drops a bipartisan Senate amendment that would have raised the maximum Pell Grant to $3,700 and reduced the size of the five-year tax cut by $2.7 billion.

- ***National Institutes of Health (NIH) —*** The conference agreement presumably increases NIH about $1 billion above a 2000 freeze. For 1999 and 2000, Congress voted on a bipartisan basis to increase NIH funding by 15 percent per year. However, the increase for 2001 provided in the conference agreement is insufficient to continue the 15 percent annual increases required to double NIH funding by 2003.

- ***Science and NSF —*** Funding for science, space, and technology is equal to the level in the House-passed budget. The House had added $600 million to the Republicans' starting level due to Democratic efforts led by Rep. Rush Holt (D-NJ), who offered an amendment in committee mark-up to increase funding for the National Science Foundation by $675 million for 2001 ($3.9 billion over 2001-2005).

- ***Environmental Programs —*** The conference agreement cuts 2001 funding for natural resources and environmental programs by $600 million in purchasing power. By 2005, the level in the conference agreement represents a $2.9 billion (10.7%) cut in purchasing power. The conference agreement is silent regarding the President's Lands Legacy Initiative, but the funding levels leave little room for the President's proposal.

- ***Other Domestic Programs* —** The logical consequence of enforcing the levels of budget authority for appropriated programs in the various functions is that appropriations bills would —

  - eliminate Head Start for more than 40,000 children and their families by 2005;
  - cut more than 600 FBI agents and more than 500 Drug Enforcement Administration agents by 2005;
  - provide Pell Grants to 316,000 fewer low-income students by 2005;
  - cut funds to clean up 40 Superfund sites by 2005;
  - cut the Community Development Block Grant, Rural Community Advancement, Empowerment Zones, and Economic Development Assistance programs by almost one-third by 2005; and
  - cut energy research by 29 percent by 2002 even though the recent increase in oil and gasoline prices underscores the need for developing alternative energy sources.

Low-Income Programs

The conference agreement increases low-income entitlement/tax benefits by $7.7 billion over five years, including $6.3 billion for the Earned Income Tax Credit,[3] $1.0 billion for Title XX Social Service Grants, and $0.4 billion for some increased health benefits, relative to a projection of existing law. The House-passed budget did not include any EITC or Title XX improvements. (See *Low-Income Programs* for more detail.)

The House Democratic alternative, in contrast, increased entitlement benefits for low-income people by $13.1 billion in outlays *and* as much as $24.2 billion in refundable tax credits, for a total of $37.4 billion. These benefit increases were targeted to Medicaid and SCHIP, Food Stamps, Title XX, SSI, the EITC, and the Dependent Care and the Long-Term Care tax credits.

In addition, low-income appropriated programs fared $32 billion better in the Democratic alternative than in the conference agreement. Specifically, the discretionary outlay totals for two functions — Income Security and Education, Training, Employment, and Social Services — were $32 billion higher in the Democratic alternative. Those functions cover such appropriated low-income programs as Title I education for the disadvantaged, Pell Grants, Head Start, child care, LIHEAP, WIC, and subsidized housing.

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[3] The EITC increase is to mitigate the EITC marriage penalty. Estimates by the Joint Tax Committee show the Senate Finance Committee's EITC proposal costs $5.3 billion in outlays over five years and $1.0 billion in revenues, for a total of $6.3 billion.

Farm Programs

The conference agreement provides $5.5 billion in 2000 and $8.8 billion over the five years 2001-2005 for increased payments to farmers. These amounts are similar to the those in the House resolution. However, the continued squeeze on appropriations to administer farm programs makes delivery of these benefits problematic. See *Function 350, Agriculture*.

Military Retiree Health Care

The conference agreement includes funds to improve health care benefits for military retirees — $50 million for 2001 and $400 million over the 2001-2005 period. In contrast, the House Democratic plan provided $5.4 billion for military retiree health improvements over the 2001-2005 period, and $16.3 billion over the 2001-2010 period. In addition, the House Democratic alternative placed no conditions on the funding, and issued a reconciliation directive to the Armed Services Committee. A reconciliation directive requires the legislation to be reported and protects it from filibusters and non-germane Senate amendments. See *Military Retirees*.

Changes Made By Conference

The conference agreement is very similar to the House-passed budget resolution. See *Highlights of the Conference Agreement versus the House-Passed Resolution* for a detailed comparison. Four of the more notable changes made in conference are:

- ***Tax Cuts —*** Conferees reduced the cost of the five-year tax cut by $25 billion, from at least $200 billion in the House to at least $175 billion in conference agreement.

- ***Mandatory Programs —*** Conferees included $1.0 billion over five years to increase Title XX and $6.3 billion over five years to mitigate the EITC marriage penalty.

- ***Discretionary Programs —*** For 2001, conferees increased defense budget authority by $3.5 billion and non-defense budget authority by $0.2 billion above the House-passed resolution. From 2001-2005, conferees increased defense budget authority by $3.1 billion and non-defense budget authority by $16.6 billion above the House-passed resolution.

- ***Appropriations Firewalls —*** The conference agreement establishes a firewall between 2001 defense and non-defense programs in the Senate, enforced by a new point of order.

Ten-Year Estimates of the Conference Agreement

Last year, the congressional budget resolution covered ten years. The apparent purpose was to show how large a ten-year tax cut could be, perhaps under the assumption that a bigger ten-year figure would attract more public support. Instead, the bigger figure may have attracted more opposition, and subjecting non-defense appropriations to a ten-year freeze, or close to it, highlighted the unrealistic nature of the Republican budget.

This year, in contrast, the Republicans have reverted to a five-year plan. However, last year's experience teaches us to examine the ten-year implications of any budget plan. For that reason, the ten-year ramifications of the conference agreement are estimated in this report.[4] Table 5 (next page) simply extends Table 2 through 2010; the figures in italics represent estimates. Table 5 shows the same story as Table 2:

- ***Republican Plan Requires Deep Non-Defense Cuts —*** The small on-budget surplus in the conference agreement is heavily dependent on enacting permanent and deep cuts in non-defense discretionary appropriations. In fact, by 2010 the average funding cut represents a 14 percent reduction in purchasing power.

- ***The Tax Cut Consumes All of the Projected On-Budget Surplus —*** Again, the size of the tax cut is nearly identical to the size of the on-budget surplus. This is not a surprise, of course. From the day the Republicans became the House majority, their budget plans have made it clear that the purpose of cutting programs is to finance tax cuts.

- ***Nothing for Social Security or Medicare Solvency —*** Not only do the conferees reject the idea of transferring resources to the Social Security and Medicare trust funds, they also make sure that there are little or no on-budget surpluses available to be transferred. With the pending retirement of the baby boomers, it seems wise to build up additional governmental resources by more rapidly paying down the debt. The conference agreement rejects that notion in favor of the largest possible tax cut, thereby diminishing the government's ability to address the costs of the baby boomers' imminent retirement.

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[4] The estimates for 2006-2010 were derived as follows. For appropriated programs, Republican growth rates were simply continued. Specifically, it was assumed that defense budget authority would continue to grow in 2006-2010 at the same average rate as in 2001-2005, and that defense outlays would also grow at that rate. The same methodology was also used for non-defense appropriations.

For entitlement programs, ten-year cost estimates were used where they existed, such as for the EITC policy or the renewal of the existing Customs Service fee after it expires. Most other entitlement increases closely tracked a policy for which there was a cost estimate; for example, the cost of the Medicare increases closely tracks the President's drug benefit as estimated by CBO. It was therefore assumed that these costs would continue to track the President's proposal after 2005.

For revenues, it was assumed that the tax cut would cost four times as much in the second five years as the first five. This assumption reflects a somewhat greater growth rate than in the tax bills the Republicans have brought to the floor so far this year, but a more modest and conservative growth rate than in last year's tax bill. Specifically, it was assumed that the conference tax bill will cost less in years six through ten than last year's tax bill, even though it costs more in years one through five.

Table 5: A Ten-Year Estimate of the Conference Agreement

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	2001	2002	2003	2004	2005	*2006*	*2007*	*2008*	*2009*	*2010*	*Ten years*
CBO Surplus w/o Social Security	15	29	36	42	48	*92*	*121*	*138*	*169*	*202*	*893*
Tax cuts	13	27	36	45	53	*82*	*111*	*140*	*169*	*198*	*875*
Medicare	2	5	8	11	14	*18*	*20*	*23*	*26*	*29*	*155*
Non-defense cuts	-12	-13	-19	-26	-32	*-36*	*-39*	*-42*	*-45*	*-49*	*-312*
Defense increases	2	3	2	3	2	*3*	*4*	*-1*	*-4*	*-6*	*8*
Farm payments	2	1	2	2	2	*2*	*2*	*2*	*2*	*2*	*19*
Other mandatory	a	2	1	a	a	*a*	*a*	*a*	*a*	*a*	*4*
Interest costs	1	2	4	6	8	*11*	*16*	*23*	*32*	*42*	*146*
Surplus w/o Social Security	8	2	1	1	a	*11*	*6*	*-7*	*-10*	*-13*	*-2*

May not add due to rounding.
Figures in italics equal staff estimate; see footnote 4 on previous page.
a = less than $½ billion

Comparison With Democratic Plan

Table 6 compares the conference agreement, including an estimate of its ten-year costs, in italics, with the Democratic alternative.

Table 6: Comparing the Conference Agreement with the Democratic Alternative

Figures exclude Social Security; revenue or outlay changes in billions of dollars

	Five-year Totals			Ten-year Totals		
	Rep.	Dem.	Diff.	Rep.	Dem.	Diff.
CBO Surplus w/o Social Security	171	171		*893*	893	
Tax cuts	175	50	-125	*875*	201	-674
Medicare reform & drugs	40	40	0	*155*	155	0
Non-defense cuts	-102	-11	91	*-312*	-35	277
Defense increases	12	10	-2	*8*	34	26
Other mandatory policies	12	17	4	*23*	72	49
Interest cost of policies	21	17	-4	*146*	102	-44
Planned Surplus w/o Social Security	12	48	36	*-2*	365	367

May not add due to rounding.
Figures in italics are estimates.

The key differences between the conference agreement and the Democratic alternative, beyond those obvious from Table 6, follow:

- ***The Democratic Plan is Balanced, While the Republicans Make Tax Cuts Their Top Priority —*** As can be seen, the Democratic alternative divided projected surpluses relatively equally among debt reduction, tax cuts, and program improvements. The conference agreement calls for tax cuts that consume essentially all the projected surpluses.

- ***Medicare and Social Security Solvency —*** The conference agreement does nothing to extend the solvency of the Social Security or Medicare trust funds. The Democratic alternative, in contrast, transferred $300 billion of the on-budget surplus to the Medicare Part A (Hospital Insurance) Trust fund over ten years, extending its solvency by about a decade. And starting in 2011, the Democratic alternative transferred an amount equal to the reduction in federal net interest payments between 2000 and 2010 from the on-budget surplus to the Social Security trust fund, increasing its solvency by an estimated 15 years.

- ***Medicare Prescription Drugs —*** The conference agreement sets aside $40 billion over five years for Medicare, the same as the Democratic alternative. But the conference agreement links the drug benefit to undefined "reform," allows some or much of the $40 billion to go to purposes other than prescription drugs, does not require that the drug benefit be a universal Medicare benefit, and does not use the reconciliation process to make sure Congress actually goes forward with a prescription drug bill. The Democratic alternative has none of those shortcomings.

- ***Debt Reduction —*** The conference agreement devotes $12 billion, or 8 percent, of the projected on-budget surplus to debt reduction over five years, while the Democratic alternative devoted four times as much to debt reduction.

For a more detailed comparison of the two budget plans, see *Highlights of the Conference Agreement versus the Democratic Alternative*.